

HARVEY WOODS LIMITED ANNUAL REPORT 1981

During the past year, Canada moved deeper into a recession with unemployment reaching abnormally high levels and prohibitive rates of interest for both business and individuals. These conditions have taken their toll on our customers, the retailers, who have also had to contend with a soft market. The lack of confidence in the trade is reflected in a reduction in advanced bookings which is the traditional way business has been conducted in our industry. This makes the planning of production and the management of inventories more difficult.

Details of the financial results are contained in the remarks that follow; suffice to say at this point that they were unsatisfactory in spite of the efforts by management to cope with the many problems.

The outlook for our markets in the year ahead, in many respects, is less optimistic than a year ago. Inventories have been reduced from their peak in 1981, but further reductions are necessary. First Quarter results will undoubtedly be adversely affected by low production levels and less than buoyant sales demand. On the other hand, many aspects of the Company look promising and with lower inventories, interest costs should be less onerous in the future.

INCOME Consolidated Net Income for the year was \$138,000 or 5¢ per share, compared to \$315,000 or 12¢ per share last year. Higher interest costs more than accounted for the decrease in earnings and these were due to higher rates that prevailed through the year and higher borrowings for part of the year. Another significant factor that affected our earnings was unabsorbed factory overhead resulting from lower production that was necessary to adjust inventory levels. This last point particularly affected earnings in the fourth quarter along with an abnormally low level of sales. It is noted that there is no income tax payable due to the 3% allowance on opening inventory.

A dividend of 3¢ per share was paid June 30, 1981. In view of the trend of operating results in the latter part of the year, the Board of Directors felt it was prudent not to declare a dividend in December.

SALES Consolidated Sales of \$29,618,000 represents an increase of 10% over the previous year. Unit volume of apparel was down 8%, but this was more than offset by price increases, changes in product mix and increased sales by subsidiary companies. Continuing progress was made in the sportswear and bulk-T markets. Reference is made to subsidiary operations below.

The Federal Government has concluded a new five year bilateral arrangement starting in 1982 with ten of the low cost countries for the restraint on textile imports into Canada. This will go a long way to maintaining an orderly condition in the textile industry which is very important to the Canadian economy.

SUBSIDIARY COMPANIES It was reported last year that Thomson Research Associates Limited had engaged an experienced agency to market our germicides under the name "Ultra-Fresh" in the United States. This new association has begun to show results and the outlook is very promising. During 1981 certain carpets produced in the United States and in Canada have been treated with "Ultra-Fresh" anti-microbial chemicals and promoted as such in the market place.

Kroy Unshrinkable Wools Limited have machines for the shrink-proofing of wools operating in the United States, Australia and the United Kingdom. We are aggressively pursuing other world markets for licences for our patented machine. Other development work is proceeding with the assistance of a federal research grant.

Dinovel Chemicals Limited, in which our subsidiary Thomson Research Associates Limited holds a 30% interest, improved its operations in 1981 and is looking forward with optimism to 1982.

FINANCIAL The Consolidated Statement of Changes in Financial Position at December 31, 1981 shows a Net Working Capital of \$6,423,000 which is a decrease of \$752,000 from the previous year. Details of the source and application of working capital are shown in the statement enclosed.

Capital Expenditures were \$651,000 and were largely for expansion in the sportswear plant and to improve efficiency and effect cost reductions in the underwear and hosiery operations. Capital Expenditures in 1982 are expected to be about \$400,000.

The Federal Government announced the establishment of the Canadian Industrial Renewal Board to provide financial assistance to companies in the textile industry to restructure their operations. This programme is very broad and can be spread over a two to five year period. It should have a significant impact on companies that are able to take advantage of this opportunity. Your Company's application to be considered under this programme has been approved and steps are being taken to develop a restructuring plan with the assistance of outside consultants.

PERSONNEL Mr. J. D. Woods, Chairman of the Board of Directors, has announced his intention to retire from this office following the Annual Meeting. Mr. Woods has served the Company in various capacities over the past thirty-six years and has been Chairman of the Board of Directors since 1973. Mr. Woods' foremost concern has always been the welfare of the Company and at the same time he has established a distinguished personal reputation throughout the Canadian textile industry. We are pleased that Mr. Woods will continue to serve the Company on the Board of Directors so that his experience and special knowledge will continue to be available to the management.

Mr. R. W. Meeke, who has been your President for the past eight years, has recently left the employ of the Company. Mr. A. Davidson, Chairman of the Executive Committee of the Board of Directors, has been elected President to serve while a search is being conducted for a replacement.

These are difficult times for the Company and this is particularly true for its management. The dedication of management and the co-operation and loyalty of all employees and suppliers is gratefully acknowledged.

The Annual Meeting of the Company will be held on April 8th at the Royal York Hotel in Toronto and we look forward to discussing, in more detail, the affairs of the Company.

On Behalf of the Board of Directors

J. D. Woods, Chairman
A. Davidson, President

March 12, 1982
Toronto, Ontario

Albert

To the Shareholders of Harvey Woods Limited

We have examined the consolidated balance sheet of Harvey Woods Limited as at December 31, 1981 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon
Chartered Accountants

London, Canada.
February 19, 1982.

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HARVEY WOODS LIMITED
(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET (as at December 31)

	1981	1980
ASSETS		
	(in thousands of dollars)	
Current:		
Cash	\$ 3	\$ 3
Accounts receivable	4,841	4,426
Inventories (note 2)	9,907	9,943
Prepaid expenses	175	324
Current portion of note receivable	65	54
Total current assets	14,991	14,750
Investments and other assets:		
Note receivable	161	220
Investment in Dinoval Chemicals Limited (note 3)	107	101
Total investments and other assets	268	321
Fixed assets (note 4)	2,502	2,355
Total	\$ 17,761	\$ 17,426

On behalf of the Board

A. Davidson, Director — J. A. Young, Director

(See accompanying notes)

LIABILITIES AND SHAREHOLDERS' EQUITY	1981	1980
	(in thousands of dollars)	
Current:		
Due to bankers - demand loan (note 5)	\$ 5,011	\$ 3,914
Accounts payable and accrued charges	2,764	2,759
Deferred revenue		34
Taxes payable	193	224
Current portion of long-term debt	600	644
Total current liabilities	8,568	7,575
Long-term debt (note 5 and 6)	1,800	2,400
Deferred income taxes	133	248
Shareholders' equity:		
Share capital (note 7)	1,994	1,994
Retained earnings	5,266	5,209
	7,260	7,203
Total	\$ 17,761	\$ 17,426

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CONSOLIDATED STATEMENT OF RETAINED EARNINGS (year ended December 31)

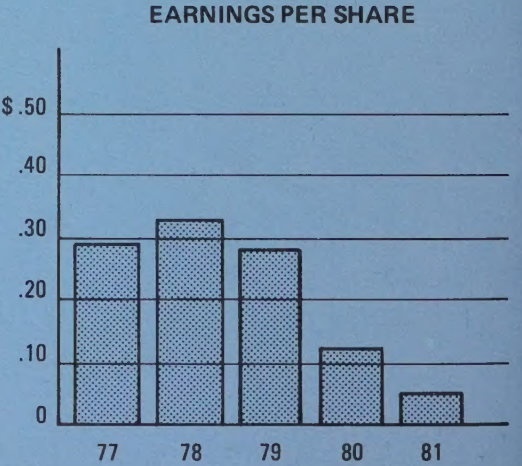
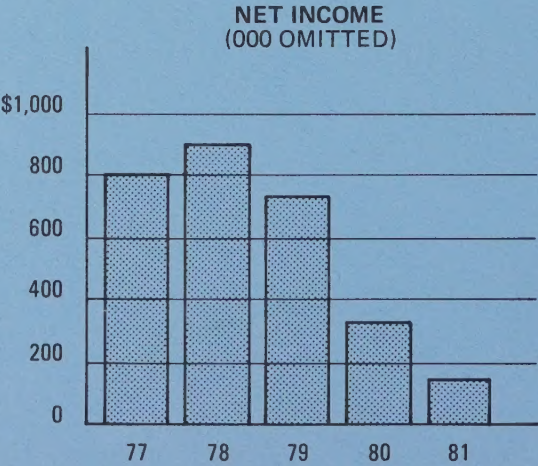
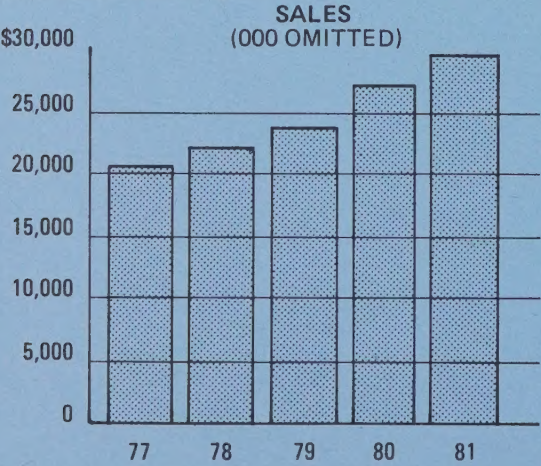
	1981	1980
	(in thousands of dollars)	
Balance, beginning of year	\$ 5,209	\$ 5,054
Net income for the year	138	315
Dividends paid (\$0.03 per share in 1981; \$0.06 per share in 1980)	(81)	(160)
Balance, end of year	\$ 5,266	\$ 5,209

(See accompanying notes)

CONSOLIDATED STATEMENT OF INCOME (year ended December 31)

	1981	1980
	(in thousands of dollars)	
Sales	\$ 29,618	\$ 26,865
Expenses:		
Cost of sales	21,706	19,956
Marketing, general administration and shipping expenses	5,709	5,188
Depreciation and amortization	456	400
Interest - long-term debt	559	35
- short-term debt	1,169	937
	29,599	26,516
Income from operations	19	349
Equity in earnings of Dinoval Chemicals Limited (note 3)	13	
Income before taxes	32	349
Income taxes - current	9	9
- deferred	(115)	25
	(106)	34
Net income for the year	\$ 138	\$ 315
Income per share	\$.05	\$.12

(See accompanying notes)



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION (year ended December 31)

	1981	1980
	(in thousands of dollars)	
Source of working capital:		
Operations —		
Net income	\$ 138	\$ 315
Items not affecting working capital:		
Depreciation	456	400
Gain on disposal of fixed assets		(3)
Minority interest in earnings of subsidiary		(3)
Equity in earnings of Dinoval Chemicals Limited	(13)	
Deferred income taxes	(115)	25
	466	734
Repayment of notes receivable	59	
Repayment of advances by Dinoval Chemicals Limited	7	10
Proceeds from disposal of fixed assets	48	35
Increase in long-term debt		2,018
Issue of share capital		56
	580	2,853
Application of working capital:		
Purchase of fixed assets	651	587
Reduction in long-term debt	600	
Issue of note receivable		220
Dividends paid to minority shareholders		10
Dividends paid	81	160
	1,332	977
Increase (decrease) in working capital	(752)	1,876
Working capital, beginning of year	7,175	5,299
Working capital, end of year	\$ 6,423	\$ 7,175
Represented by:		
Current assets	\$ 14,991	\$ 14,750
Current liabilities	8,568	7,575
	\$ 6,423	\$ 7,175

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The financial statements of the company have been prepared by management in accordance with generally accepted accounting principles consistently applied. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgement and in the light of information available. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Principles of consolidation —

The consolidated financial statements include the accounts of the company and its subsidiaries, Thomson Research Associates Limited and Kroy Unshrinkable Wools Limited. The equity method has been used to account for the 30% investment in Dinoval Chemicals Limited. All material intercompany accounts and transactions have been eliminated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

(b) Inventories —

Inventories are stated at the lower of cost and market. Cost is computed using currently adjusted standards which approximate actual cost on a first-in, first-out basis. Market value is defined as replacement cost for raw materials and net realizable value for work in process and finished goods.

(c) Fixed assets —

Fixed assets are stated at historical cost. Maintenance and repair expenditures are expensed as incurred. Depreciation is provided on the declining balance basis at rates which amortize the cost of assets as follows:

Buildings	— 5%
Equipment	— 20%

(d) Income taxes —

Income taxes are provided on the basis of accounting income which is different from income as determined for income tax purposes as a result of claiming capital cost allowances different than depreciation and amortization and other timing differences. Income taxes which have been provided for but which are not currently payable, are included as deferred income taxes in the accompanying consolidated balance sheet.

Income taxes have been reduced by approximately \$137,000 (1980 - \$131,000) as a result of claiming the 3% inventory allowance for income tax purposes.

2. Inventories

	1981	1980
	(in thousands of dollars)	
Finished goods	\$6,187	\$5,087
Work in process	1,425	2,536
Raw materials and supplies	2,295	2,320
	\$9,907	\$9,943

3. Investment in Dinoval Chemicals Limited

	1981	1980
	(in thousands of dollars)	
Shares - at cost	\$ 82	\$ 82
Add the company's share of income since acquisition	20	7
Advances	5	12
	\$107	\$101

4. Fixed assets

	1981		1980	
	Assets at cost	Accumulated depreciation	Net book value	Net book value
	(in thousands of dollars)			
Land	\$ 40		\$ 40	\$ 40
Buildings	1,827	\$ 803	1,024	1,050
Equipment	5,160	3,722	1,438	1,265
	\$7,027	\$4,525	\$2,502	\$2,355

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

5. Bank indebtedness

At December 31, 1981, bank indebtedness consisted of a demand loan of \$5,011,000 included in current liabilities and a further \$2,400,000 payable on demand but included in long-term debt, for which term repayments have been arranged as described in note 6. The company has pledged its accounts receivable and inventories as collateral and has also issued to the bank fixed and floating charge demand debentures in the amount of \$4,500,000.

6. Long-term debt

	1981	1980
	(in thousands of dollars)	
Demand bank loans* - bearing interest at ½% above the bank's prime rate, repayable in quarterly principal payments of \$150,000 to December 1985	\$2,400	\$3,000
8½% second mortgage		44
	2,400	3,044
Less portion due within one year included in current liabilities	600	644
	\$1,800	\$2,400

* Although the bank indebtedness is due on demand, the company's bankers have agreed to repayment of the debt in quarterly instalments of \$150,000 to December, 1985.

Principal repayments over the next four years are as follows:

1982	\$600,000
1983	600,000
1984	600,000
1985	600,000

7. Share capital

	1981	1980
	(in thousands of dollars)	
Authorized: 3,500,000 common shares without par value		
Issued and outstanding: 2,717,072 common shares	\$1,994	\$1,994

8. Commitments

The company leases office space and certain equipment over remaining periods of one to five years. Under the terms of existing leases, rental payments to be charged to operations in the years 1982 to 1986 are \$165,000, \$149,000, \$132,000, \$56,000 and nil respectively.

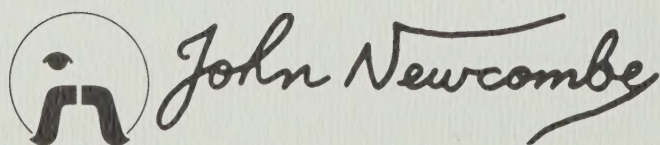
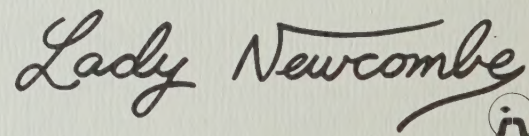
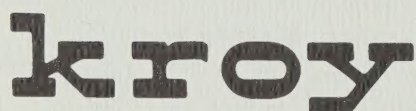
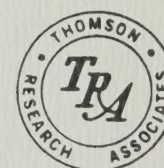
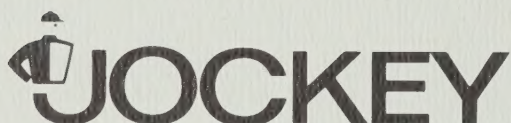
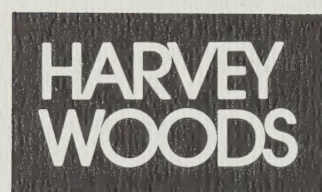
9. Segmented information

The company has substantially all of its operations in the textile industry.

FIVE YEAR FINANCIAL REVIEW

	1981	1980	1979	1978	1977
Operating results:	(in thousands of dollars)				
Sales	\$29,618	\$26,865	\$23,392	\$22,086	\$20,748
Net income	138	315	752	895	780
Financial position:					
Working capital	6,423	7,175	5,299	5,198	4,681
Total assets	17,761	17,426	16,467	13,084	11,238
Long-term debt	2,400	3,044	591	794	993
Shareholders' equity	7,260	7,203	6,992	6,240	5,345
Capital expenditures	651	587	822	531	355
Income per share	5 ¢	12 ¢	28 ¢	33 ¢	29 ¢

PRINCIPAL TRADEMARKS OWNED OR USED BY THE COMPANY AND ITS SUBSIDIARIES



Directors

- * W. D. Bean
- † P. G. Beattie, Q.C.
- † G. D. Birks
- N. H. Cruickshank
- *† A. Davidson
- * G. E. Renison
- * T. F. Snelgrove
- J. D. Woods
- John A. Young
- * Member of the Executive Committee
- † Member of the Audit Committee

Officers

- J. D. Woods
- Chairman of the Board
- A. Davidson
- President and Chairman of the Executive Committee
- John A. Young
- Vice-President and Secretary-Treasurer
- N. H. Cruickshank
- Vice-President

Head Office

18 Vansittart Avenue, Woodstock, Ontario

Sales Executive Offices

- Harvey Woods Division - 74 Victoria Street, Suite 625, Toronto, Ontario
- Jockey Division - 74 Victoria Street, Suite 621, Toronto, Ontario

Transfer Agents

The Royal Trust Company

Auditors

Clarkson Gordon

Bankers

The Toronto-Dominion Bank

Counsel

McCarthy & McCarthy

Operating Locations

- Toronto: Kroy Unshrinkable Wools Limited
- Thomson Research Associates Limited
- Sportswear Manufacturing Division
- Woodstock: Underwear & Hosiery Manufacturing Divisions

Branch Sales Offices

Vancouver — Edmonton — Winnipeg — Toronto — Montreal — Quebec

Products

Hosiery — Underwear — Sweaters — Sportswear



HARVEY WOODS LIMITED
WOODSTOCK, ONTARIO